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MTR Green Finance Framework

Dated 8 June 2018

1. Introduction

MTR Corporation Limited (“MTR”) is one of the world's leading railway operators carrying an average weekday patronage of over 5.7 million passengers in Hong Kong and, through its subsidiary and associate companies, over 6.4 million passengers overseas.

Established in 1975, MTR was formerly a Hong Kong government-owned entity constructing and operating an urban metro system to help meet Hong Kong's public transport requirements. MTR now has a diversified business profile focusing on railway construction and operations, station commercial, residential and commercial property development, property investment and management, and international consultancy services. MTR's notable railway investment and operations include the Hong Kong railway network, the Hong Kong Airport Express and several railway lines in Beijing, Hangzhou, Shenzhen, Melbourne, Sydney, Sweden and the United Kingdom. MTR's shares have been listed on the Stock Exchange of Hong Kong since 2000.

MTR's vision is to be a leading multinational company that connects and grows communities, with a focus on both the social and environmental benefits of rail networks to power the sustainable development of communities and society. Since 2001, MTR has annually published its Sustainability Report outlining these efforts, which has been acknowledged through inclusion in a number of respected sustainability indices (for example, Dow Jones Sustainability Indices, FTSE4Good, Hang Seng Corporate Sustainability Index, STOXX ESG Leaders Indices) for its continued commitment and performance on sustainability matters.



According to the United Nations, increasing urbanisation will lead to 66% of the world's population living in urban areas by 2050, which will require creation of appropriate urban infrastructure such as public transport¹. With electrically-powered mass railway generally acknowledged as one of the most environmentally sustainable ways to transport the world's growing and urbanising populations, MTR, with its excellent track record, is well-placed to contribute and respond to these increasing requirements. In support of this view, the International Association of Public Transport (UITP) and management consultant Arthur D Little concluded that Hong Kong has "the most advanced urban system in the world" and ranks first in terms of low-carbon transport². Therefore, fostering the sustainable development and energy efficiency of public transport infrastructure is fundamental to a low carbon economy in an increasingly urbanised world. MTR not only recognises this international common understanding and Hong Kong Government's focus on environmental protection, but is also working with business partners and other stakeholders to ensure the continued delivery of efficient mass transit railway services in the most environmentally sustainable way possible and to the benefit of the communities it operates in.

MTR is striving to enhance the existing railway network to Rail Gen 2.0, a next generation rail that brings superior connectivity, better facilities and enhanced customer experience to the general public. With the extension of the Island Line to the Western District, the extension of the Kwun Tong Line to Ho Man Tin and Whampoa, the opening of the South Island Line, and the upcoming Shatin to Central Link and Express Rail Link, existing and new rail lines will be knitted together to form a more superior railway network that will provide enhanced connectivity and accessibility to more areas. Major replacement and upgrading of infrastructure and facilities such as rolling stocks and signaling systems are also underway alongside the new lines to construct a better railway network for the future.

¹ World Urbanization Prospects, UN DESA, 2014

² Future of Urban Mobility 2.0, UITP and Arthur D Little, 2014



2. MTR Green Bond Framework and Green Finance Framework

MTR first published its Green Bond Framework in October 2016 to set out how MTR would issue green bonds (MTR Green Bonds) and use the proceeds of such bonds to invest in projects and facilities that are consistent with MTR's strategy to make investments that will result in achieving enhanced service levels and environmental performance goals over the longer term.

MTR's Green Bond Framework was set up under the guidance of the Green Bond Principles issued by International Capital Market Association (ICMA). Sustainalytics had reviewed the framework at inception and determined that MTR's Green Bond Framework aligns with the four core components of the Green Bond Principles, and is credible and robust.

In June 2018 this "**Green Finance Framework**" is created to extend the scope of the original Green Bond Framework to cover other forms of green financing, reflecting MTR's commitment to the development of the sustainable finance market and its continued investment in sustainable and green businesses.

The Green Finance Framework has taken into account components recommended in the Green Loan Principles issued by Asia Pacific Loan Market Association (APLMA) in March 2018.

3. Green Finance Transactions under the Green Finance Framework

MTR or its subsidiaries may from time to time, enters into the following green finance transactions pursuant to this framework.

Green Finance Transactions

- Green Bonds.
- Green Loans (including but not limited to term loans and revolving credit facilities).
- Other form of financing which conforms to sustainable or green finance principles as may have been established at the time of such financing transactions being undertaken.

The MTR Executive Committee will be responsible for reviewing and approving the execution of green finance transactions based on the recommendations of the Treasury Department and the Corporate Responsibility Department.

All green finance transactions shall comply with the Use of Proceeds and Governance provisions set out in this MTR Green Finance Framework.

4. Use of Proceeds

The proceeds of MTR's green finance transactions will be used to fund or refinance, in whole or in part, Eligible Investments (as defined below) in one or more of the categories set out below which enable MTR to increase energy efficiency in its operation, use natural resources sustainably and adapt to climate changes. Investments may be made in or outside of Hong Kong.

Pending allocation of the net proceeds from any green finance transactions to the Eligible Investments, the net proceeds may be used to temporary repay borrowings under MTR's general credit facilities.

Green revolving credit facilities will also be earmarked to, in whole or in part, Eligible Investments.

Eligible Investments

4.1 Low Carbon Transportation: Development, construction and operation of low carbon transportation solutions, including investment in:

- projects to build or operate electric, hybrid, public, urban metro, heavy or light rail, non-motorized, multi-modal transportation such as construction of new lines, network expansion, last mile solutions and expansions and upgrades that result in improved service levels
- the creation or construction of infrastructure that supports low carbon transportation such as signaling equipment, network interfaces including passenger access, ancillary passenger services, facilities required for the safe, clean and efficient operation of the network, utilities and other enabling infrastructure

- 4.2 Energy Efficiency: Design, manufacture and installation of systems, products and technology that reduce energy consumption or improve efficiency or mitigate greenhouse gas emissions in railway construction and operations, as well as property management, including investments:
- that enable energy performance monitoring and modelling such as design and installation of computer controls, sensors, or information systems
 - that optimise the amount and timing of energy consumption and minimise peak loads such as design and installation of metering, peak load shedding, regenerative braking systems, or trackside energy storage system
 - the deployment of new and energy-efficient trains, light rail vehicles and buses
 - that involve installation, maintenance or replacement of energy efficient heating, ventilation, air-conditioning, cooling, lighting and electrical equipment such as light emitting diodes (LEDs), sensor systems, platform screen doors, variable frequency drives (VFDs), air or water cooled chillers
- 4.3 Sustainable Transit Stations and Real Estate Properties: Relevant existing or new buildings that has received, or expects to receive based on its design, construction and operational plans, certification according to third party verified green building standards such as BEAM or equivalent certification scheme such as LEED, BREEAM and ISCA that may be relevant to specific jurisdictions and/or a standard equivalent, at minimum, that demonstrates energy and water efficiency in certified buildings
- 4.4 Adaptation to Climate Change: Projects for the design, construction, maintenance and upgrades of infrastructure for adapting to extreme weather events including but not limited to flood prevention, flood defense or storm-water management such as wetlands, retention berms, reservoirs, lagoons, sluice gates, drainage systems, tunnels and channels, protection from heat-stress, among others
- 4.5 Biodiversity and Conservation: Reforestation and ecological restoration of forests and wetlands and soil remediation

- 4.6 Water Management: Rainwater collection, installation/upgrade of technologies to increase water efficiency, alternatively sourced water treatment facilities
- 4.7 Waste Management: Waste management support infrastructure within MTR premises such as recycling collection areas, technologies that enable the separation, handling and processing of waste to recycled materials
- 4.8 Pollution Prevention - Improvement of Air Quality and Noise Reduction: Technologies related to enhancing air quality such as but not limited to increased air circulation, air filtration, noise reduction technologies such as noise barriers, modification of turnouts, rail dampers and insulation booths.

5. Green Finance Transaction Governance

5.1 Project Evaluation and Selection

Each investment case will be evaluated to assess that the investment is financially viable and falls into one or more of the categories of Eligible Investment and the investment can reasonably be expected to deliver environmental benefits over the useful life of the investment.

The Treasury Department and the Corporate Responsibility Department of MTR will review and approve (as appropriate) each proposed use of proceeds based on this evaluation.

5.2 Management of Proceeds of Green Finance Transactions and Earmarking

For green bonds and term loans, the proceeds will be credited to the relevant general funding account, and, pending earmarking to Eligible Investments, such proceeds may be invested in accordance with MTR's Investment Guidelines (e.g. investments in money market instruments) or used to repay existing borrowings under its general credit facilities, in whole or in part.

For green revolving credit facilities, the total amount of the facility will be earmarked against the identified Eligible Investments regardless of the actual drawings. This allows for the flexibility in repeated drawings and repayments of such facilities.

The earmarking to Eligible Investments will be carried out as soon as practical.

5.3 Green Finance Register

A new Green Finance Register will be created and MTR will maintain the Green Finance Register to keep track of the use of proceeds for each green finance transaction governed by this Green Finance Framework.

The Green Finance Register will contain, for each green finance transaction, information including:

a. Details of the Green Finance Transaction: where applicable, ISIN, principal amount outstanding, pricing date, maturity date, lending bank

b. Use of Proceeds: information including:

- Eligible investment category
- Summary details of investment made
- Amount of investment made/earmarked for undrawn facilities
- Other necessary information so that the aggregate of issuance proceeds allocated to Eligible Investments is recorded at all times
- An estimate of the beneficial impact of the investment, where possible

5.4 Reporting on Use of Proceeds

Starting from 2018, MTR shall prepare a Green Finance Report on an annual basis. The report shall keep track of the use of proceeds and earmarking of facilities of all Green Finance Transactions carried out after June 2018.

The Green Finance Report shall also inherit and update some parts of the Green Bond Report under the original Green Bond Framework.



The Green Bond Report under the original Green Bond Framework will be incorporated into the Green Finance Report.

The report will be available online at www.mtr.com.hk.

Allocation reporting

The Green Finance Report will disclose for each period:

- A list of green finance transactions outstanding, including issuing/borrowing entity, ISIN and outstanding amounts at the beginning and end of the annual period, where applicable
- Green finance transactions arranged and repaid / redeemed during the period
- For each green finance transactions in existence during the period:
 - the amount of proceeds invested/earmarked into each category of Eligible Investments
 - description of the investments made including estimate of the beneficial environmental impact of the investment where possible
 - the remaining balance of unallocated proceeds or revolving credit facility amounts at the end of the reporting period.

The Green Finance Report will be reviewed by the MTR Executive Committee.

MTR will engage an independent third party to review the investment/earmarked amounts in the Green Finance Report.